

Sustainable Advantage



The only sustainable competitive advantage in business comes from enhancing the performance of the people in your organization.

DURING THE 1980's, BUSINESS GAVE a lot of attention to sustaining strategic advantage through deft maneuvers to outflank the competition. Several authors and consultants became well known for describing the things firms needed to do to compete and win in the marketplace. From astute analysis of markets and quality-focused customer service, to encouraging entrepreneurial spirit, to applying new and better technologies, these and other highly respected business experts described the strategies of the successful companies and talked about how to emulate performance.

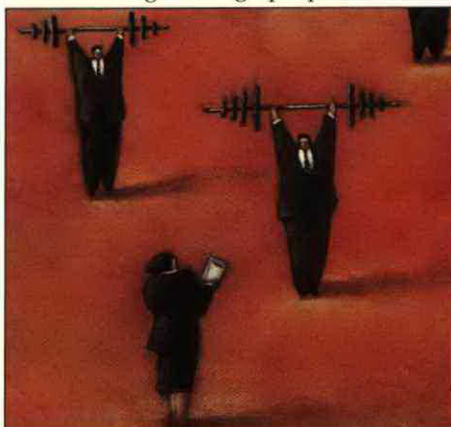
In the early 1990's, the focus shifted to re-engineering, downsizing, the end of the traditional job, and other dramatic attempts to improve business results, increase profits, reduce overhead, and stay ahead of the competition. Again, this attention has been on what firms needed to do to be successful—with emphasis on product innovation, being on the leading edge of new technologies, and advanced marketing approaches.

Today, we find ourselves in a period unlike any other in history. For the first time, virtually all of our products and services are commodities and are no longer our exclusive province. New ideas, technologies, and methods for competitive advantage are not new very long and are available to practically anyone who wants them. No matter how well we are doing today, our competitors are finding ways to do it better, faster, and cheaper. The result is obvious: the only remaining sustainable advantage we have is the performance of our people.

The firms who do the best job of attracting, recruiting, training, rewarding and retaining the best people are almost inevitably the leaders in their industries. Their emphasis has been on developing people by strengthening their work behaviors and job-related skills. The dra-

matic downsizings temporarily shifted attention away from this aspect of competitiveness, but most organizations have at least continued some training programs and made efforts to calm and reassure employees during the almost continuous change that has confronted us.

As we focus once again on the importance of maximizing our human resources, a new paradigm is emerging. To compete effectively, we must not only attract and retain the best people we can, but also continually assess how they're doing regarding the business objectives we're trying to accomplish. Just focusing on specific work behaviors and skills is no longer enough. To sustain competitive advantage through people, we have



to be attuned to the results people must achieve to ensure our business success, and then encourage those results.

This focus on results requires that we understand three items: 1) What each person must do for the business to meet its goals and objectives; 2) how each person is currently performing; and 3) what the performance gap is between the two.

Upon identification of the performance gap, we can begin to understand the causes. These causes may be any number of things—poor management systems, lack of information and documentation, ill-conceived compensation and reward systems, lack of proper authority or decision-making ability—the list goes on. But understanding the root causes must occur first to put in place the appropriate actions to improve results.

Imagine you are leading a much needed re-engineering effort for your

organization. The vision has been set and communicated. The change team has articulated a powerful mandate for change and focused on necessary business results. You have involved employees and encouraged their participation. But still, the results aren't what you'd hoped. What's gone wrong?

In analyzing the problem, you may identify an abundance of challenges that could be preventing your organization from accomplishing the desired change. Resistance to change, the inability to create a strong case for change, ineffective communication strategies, lack of integration of competing projects, misdirected performance measures, and lack of innovation are all challenges that can signal doom for even the most compelling change efforts. In reality, a performance improvement analysis of this situation revealed a much more basic issue—*employees simply didn't know what to do differently*. Once employees were encouraged to think "what if" questions about their functions, and challenged to try new approaches, they developed numerous innovative ideas for performing their work differently. The result? They could see positive reasons for such efforts and the change effort soared.

Using this approach may seem to place less emphasis on people development because of the focus on meeting business objectives. In reality the performance of people is the most critical aspect of sustaining business success. However, the primary focus is on enabling people to contribute the results that have the greatest value to the business as opposed to a focus on job-related skills. Skills are important only in that they enable people to accomplish what's required of them to achieve results.

To start your performance improvement analysis, look at what your organization needs to do to compete successfully and meet business objectives. Then examine what functions and individuals need to achieve versus how they are actually performing. It's important to understand the real causes behind current performance. These can often be hidden and complex, but treating root causes instead of symptoms is the only way to succeed in this process.

Performance improvement is never easy, but, when done correctly, is probably the most valuable investment you'll make in your business. It provides you the leverage to maximize the only real sustainable competitive advantage left—the performance of people. **EE**

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What Comes First?



Many executives are confused over the correct sequence of structure, strategy, leadership, or vision: what to do first?

MANY YEARS AGO, WHEN I WAS a senior in high school, my city sent 20 teenagers, including myself, to France as a youth delegation. We took an overnight train ride from Biarritz, the site of our youth camp, to a meeting in Paris. Being teenagers, we all tried to fit into one compartment. Some of us were sitting on each other's laps, reclining across several people. As we finally fell asleep, one of us wanted to go to the bathroom. Commotion galore! "Move your hand! Watch how you step!" There was no support for "change" in those circumstances. The entire compartment had to be disturbed simply because one person had to go to the bathroom!

In poorly structured organizations, it is easier to "wet your pants" than make a commotion and evoke the wrath of your peers. The vision and values of an individual leader are insufficient to produce change. While these are necessary, they have to be put to use in the right sequence.

Alfred Chandler led us astray when he claimed over 33 years ago that "structure follows strategy." My colleagues claim now that structure follows leadership, values, and vision. I claim that Chandler was incorrect then and that my colleagues are missing the point now. They are confusing the "is" with the "should."

Structure *should* follow strategy. In reality, however, strategy follows structure because organizations are political entities. If one knows what the power structure is, one can predict what the strategy will be because people follow their self-interests. Strategy is the manifestation of those self-interests because it reflects the power structure. It should not be that way; but, that is irrelevant. Focusing on what *should* happen rather than on what *is* happening leads to misdiagnosis and inadequate treatment.

Years ago, I presented this argument at Bank of America where I was facilitat-

ing the rejuvenation process. A partner of the Boston Consulting Group who attended my meetings challenged me. He said: "You might be rearranging the chairs on a sinking Titanic—shouldn't you worry why this group is travelling to Paris rather than to Rome? While you are rearranging how they sit, they might be riding in the wrong direction."

I admit that his criticism kept me awake for several nights. But then I realized that he fell into the trap of the American culture: individualism. Where is the consultant standing as he is making his analysis and recommendations? Outside the train, right? Standing from above, God-like, looking at the train as if it were a toy train, shouting, "Change the direction to Rome!" I even visualized the consultant throwing



into the train compartment a 200-page report, which had sure proof that they needed to change direction; but, would people do it? I suggest that the report will be round-filed, as are most consulting reports. Someone might read the report and cynically say, "This *should* be done. They are right, BUT.... I can't even go to the bathroom without getting everyone upset, and he wants me to change trains!"

And where is the CEO sitting? A CEO with correct vision, attitude and values—is he on the train? Or, outside the train? I suggest that he or she is as much a prisoner of the political situation as any of the others. The CEO might "make some waves" and provide a vision, but will there be true support for change or will people resist it? Are leadership, vision, values, and wishes sufficient? Are they the "driving" or the "driven" forces?

To have a new vision which people share, a vision that leads to action, there must first be a change in the present structure of self-interest so people can freely visualize their new self-interest.

I realize that there is a chicken-and-egg problem here—to change vision we have to change the perceptions of self-interest, a structural issue. To change structure, however, we need a vision.

My own approach is not to start with vision, values, and leadership styles. I first make decision-makers aware of their interdependency, how "tied up" they are.

Secondly, people in the organization need to become aware that if they do not cooperate and enable each other's movement, they will be riding to a disaster. They need to change direction. At this point, I do not get to any detail on direction. I try to create awareness of three realities: 1) Yes, we are in trouble; 2) Yes, we need to change; and, 3) Yes, we need each other to change. Once that consciousness is created, the organization needs to be coached to make some change, which will reinforce the notion that cooperation can work. Once that sense of trust is created, the change can be made because one can trust others to cooperate. Next, a general vision of the new direction (not of any specific destination) is made. Then we rearrange how we sit. Once we rearrange seating by creating a new structure, we can start planning strategy. By that time, a positive interdependency exists, a mutual trust that change can be made qualitatively and that we need to change direction—and now we can try to visualize how to do so.

My approach is to define the mission and vision as generally as possible. Mission and vision are only means to get the organization to change its structure as soon as possible. Then, with the new structure, a development of a strategy needs to be facilitated which will lead to further adaptations and refinements of structure.

The sequence is as follows: 1) *Agree that there is a problem and that we need each other to solve it;* 2) *Realize that cooperation can produce change;* 3) *Envision what we need;* 4) *Structure change of responsibility;* 5) *Formulate strategy;* 6) *Restructure authority;* 7) *Restructure rewards.*

Leadership and vision without a structural change are as empty as daydreaming. Many organizations have vision and values statements all over the place, but these have no positive effect; to the contrary, they create cynicism because the organization isn't "walking its talk."

To change organizational behavior, we must first rearrange the political and reward structure, which will give rise to a new vision and attitude and even create a place for a new leadership. **EE**

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